sion and introduced Hon. Pat M. Neff, President of Baylor University, Waco.

Mr. Neff addressed the Joint Session and assemblage.

[Note.—The copy of address by Hon. Pat M. Neff is not available at this time.]

THIRTY-FOURTH DAY.

Senate Chamber,
Austin, Texas,
March 4, 1935.

The Senate met at 10 o'clock a. m., pursuant to adjournment, and was called to order by Lieutenant Governor Walter F. Woodul.

The roll call disclosed a quorum, the following Senators being present:

Blackert.	Poage.
Collie.	Rawlings.
Cotten.	Redditt.
DeBerry.	Regan.
Duggan.	Sanderford.
Hill.	Shivers.
Holbrook.	Small.
Hopkins.	Stone.
Hornsby.	Sulak.
Hughston.	Van Zandt.
Moore.	Westerfeld.
Neal.	Woodruff.
Pace.	

Absent—Excused.

Beck.	Fellbaum.
Burns.	Martin.
Davis.	Oneal.

Prayer by the Chaplain.

Further reading of the Journal was dispensed with on motion of Senator Hill.

Senators Excused.

The following Senators were excused on account of important business:

Senator Burns, on motion of Senator Hill.

Senator Davis, on motion of Senator Rawlings.

Senator Beck, on motion of Senator Pace.

Senator Martin, on motion of Senator Blackert.

Senator Fellbaum was indefinitely excused on account of sickness.

Committee Reports.

(See Appendix.)

Minutes of Committee Meetings.

(See Appendix.)

Bills and Resolutions.

Senate Bill No. 369.

By Senator Holbrook:

S. B. No. 369, A bill to be entitled "An Act making an appropriation to be paid out of the General Revenue Fund of the State of Texas the sum of six thousand one hundred forty-eight dollars and eighty cents ($6,148.80) not otherwise appropriated, to cover taxes due by the State of Texas to the Sugar Land Independent School District covering the years from 1918 to 1927, inclusive; and declaring an emergency."

Read and referred to the Committee on Financial Affairs.

Senate Bill No. 370.

By Senator Collie, by request:

S. B. No. 370, A bill to be entitled "An Act to fix the maximum rate of tax to be levied for school purposes in all independent school districts which include within their limits a city or town which according to the latest Federal census had a population of not fewer than 7,550 and not more than 7,580, whether organized under general or special law, repealing all laws in conflict herewith, both general or special, and declaring an emergency."

Read and referred to the Committee on Educational Affairs.

Senate Bill No. 371.

By Senator Rawlings:

S. B. No. 371, A bill to be entitled "An Act to amend Section 5, Chapter 282, page 507, General Laws Regular Session Forty-second Legislature, and declaring an emergency."

Read and referred to the Committee on State Highways and Motor Traffic.

Senate Bill No. 372.

By Senator Rawlings:

S. B. No. 372, A bill to be entitled "An Act to amend Section 13a, Acts of the Forty-first Legislature, Regular Session, page 298, Chapter 314, as amended by the Acts of the Forty-second Legislature, Regular Session, page 480, Chapter 277, Section 14; and declaring an emergency."

Read and referred to the Committee on State Highways and Motor Traffic.

Senate Bill No. 373.

By Senator Rawlings:

S. B. No. 373, A bill to be entitled "An Act to amend Chapter 277, Acts of the Regular Session of the Forty-second Legislature, and declaring an emergency."

Read and referred to the Committee on State Highways and Motor Traffic.

Senate Bill No. 374.

By Senator Rawlings:

S. B. No. 374, A bill to be entitled "An Act to amend Section 5, Acts of the Forty-first Legislature, Second Called Session, page 72, Chapter 42, as amended by Acts of the Forty-second Legislature, page 507, Chapter 282; and declaring an emergency."

Read and referred to the Committee on State Highways and Motor Traffic.

Senate Bill No. 375.

By Senator Hopkins:

S. B. No. 375, A bill to be entitled "An Act to amend Article 1377 of the Penal Code of the State of Texas so as to provide that it shall be a misdemeanor for one to enter upon lands of the other without the consent of the owner, his agent or person in possession thereof, where said lands in one inclosure is less than two thousand acres, and to hunt therein with firearms, or fish in any pond, lake, tank, stream or other salt or fresh water, or otherwise depredate on same, or to enter any lands of another inclosed or not inclosed, without the consent of the owner, his agent or the person in possession thereof, and hunt thereon with firearms, fish in any pond, lake, tank, stream or other salt or fresh water thereon, or occupy, use, camp, sleep or live on such land, and to fail and refuse to vacate and move from such land upon the demand of the owner, his agent or the person in possession thereof, and providing a penalty therefor and declaring an emergency."

Read and referred to the Committee on Criminal Jurisprudence.

Senate Bill No. 376.

By Senator Hopkins:

S. B. No. 376, A bill to be entitled "An Act relating to the conservation and development of lands in the State of Texas, pursuant to Section 59 of Article 16 of the State Constitution declaring and providing that the growth of cedar upon lands is injurious to the value of such lands and the use thereof and benefits to be derived therefrom and is, and constitutes a public nuisance and that the eradication of such growths of cedar constitutes a public benefit and use; and declaring an emergency."

Read and referred to the Committee on State Affairs.

Senate Bill No. 377.

By Senator Redditt:

S. B. No. 377, A bill to be entitled "An Act providing relief for Martinsville Common School District No. 16, of Nacogdoches County, Texas, in order to aid said district in rebuilding its properties and equipping its school which was destroyed by fire on or about the first day of October, A. D. 1934; providing for work relief; making an appropriation to said district for said property; and declaring an emergency."

Read and referred to the Committee on Financial Affairs.

Senate Bill No. 378.

Senator Duggan sent up the following bills:

By Senators Duggan, Holbrook, and Woodruff:

S. B. No. 378, A bill to be entitled "An Act amending Section 1, Section 2, Section 4, Section 5, Section 6, Section 7, Section 8, Section 9, Section 10, Section 11, Section 12, Section 13, Section 15, and providing that venue of criminal prosecution shall be in Travis County or in the county where an offense is committed; providing that conviction may be had upon the uncorroborated testimony of an accomplice; providing that any accomplice testifying shall be exempt from prosecution for any offense regarding which he may testify; providing that any court officer or tribunal having jurisdiction may compel witnesses to testify; making appropriation for administration and enforcement of the law;

providing for the diversion of funds for this purpose and that two Assistant Attorneys General shall be paid from such funds; providing for the limitations of salaries of employees engaged in the enforcement of the Act; providing that if any part of the Act is found unconstitutional that such holding shall not impair or invalidate other parts of the Act; and providing that the Act shall take effect and become a law on September 1, 1935."

Read and referred to the Committee on State Affairs.

Senate Bill No. 379.

By Senators Duggan, Holbrook, and Woodruff:

S. B. No. 379, A bill to be entitled "An Act amending Article 1104, Article 1105, Article 1106 and Article 1111 of the Penal Code, and declaring an emergency."

Read and referred to the Committee on State Affairs.

Senate Bill No. 380.

By Senator Westerfeld:

S. B. No. 380, A bill to be entitled "An Act repealing H. B. No. 170, Chapter 91 of the Acts of the First Called Session of the Forty-first Legislature of the State of Texas, 1929; and providing for the creation of a Legislative Audit Committee and fixing its duties, and providing for the appointment of a State Auditor by said Legislative Audit Committee; prescribing the qualifications, duties and authority of said State Auditor and fixing his compensation; providing for the necessary assistants for said State Auditor and fixing their qualifications and compensation; providing for the payment of salaries, travel and other expense of the office of State Auditor; providing for the removal of State Auditor and his assistants, or any of them, under certain conditions; providing a method of filling any vacancy in the office of State Auditor and vacancies in the personnel of said office; and prescribing penalties; and declaring an emergency."

Read and referred to the Committee on State Affairs.

Senate Bill No. 381.

By Senators Woodruff and Duggan:

S. B. No. 381, A bill to be entitled "An Act authorizing the County Commissioners' Court of any county, the trustees of any independent school district and the governing body of an incorporated city or town in this State to employ tax consultants, upon written request of the assessor and collector of taxes, to assist the assessor and collector of taxes in listing and appraising the taxable property within their respective jurisdictions, requiring the written request for assistance and the order approving or rejecting the same to be entered in the minutes of the commissioners' court, independent school district or incorporated city or town; defining the tax consultants as used in this Act; providing that tax consultants shall be employed on a per diem basis only and providing the maximum compensation that may be paid such tax consultants for their services during any one year; providing that said tax consultants shall furnish their own transportation and all other expenses while performing such services; providing payment for appraisement and listing of taxable property shall be from general fund; providing penalties for violation of provisions of Act, repealing all laws in conflict therewith and declaring an emergency."

Read and referred to the Committee on Towns and City Corporations.

Senate Resolution No. 23.

Committees Appointed.

The Chair appointed the following committee in accordance with S. R. No. 23:

Senators Moore, Hornsby, Redditt, Pace, and Collie.

Senate Resolution No. 31.

The Chair appointed the following committee in accordance with S. R. No. 31:

Senators Hornsby, Regan, Hopkins, Oneal, and Sanderford.

Joint Session.

Senator DeBerry at 10:30 o'clock a. m., called to the attention of the Chair that the hour had arrived for the Joint Session of the House and Senate for the purpose of hearing Governor James V. Allred.

The Senate adjourned to the House.

In the House,

In accordance with H. C. R. No. 45 heretofore adopted, providing for a Joint Session of the House and Senate at 10:30 o'clock today, the Senate appeared at the Bar of the House and being admitted were escorted to seats prepared for them along the aisle.

Lieutenant Governor Walter F. Woodul occupied a seat on the Speaker's stand.

The Speaker of the House, Hon. Coke Stevenson, presented Governor Allred to the members of the House and Senate assembled in Joint Session. Governor Allred delivered the following message:

Executive Office,
Austin, Texas, Feb. 25, 1935.

To the Forty-fourth Legislature:

No higher duty can be imposed upon those chosen for actual participation in State government than the responsibility of promulgating a sound financial policy which will secure adequate revenue for the efficient conduct of the government, and which, at the same time, will not impose an unfair burden upon any class of citizens. This task is now more difficult because we inherit groups of taxes that have accumulated since the formation of our present Constitution without any thought as to how they might logically fit into an intelligent plan.

We have inherited an ad valorem tax system which goes back to a time in Texas history when 95% of the people were engaged in agricultural pursuits; and when, therefore, land ownership was practically the sole source of wealth. We have since progressed to a point of social and economic complexity when almost half the people busy themselves with urban occupations. This antiquated ad valorem system no longer justifies itself as the primary basis for taxation. Indeed, it no longer affords sufficient revenue for the conduct of the government.

Within the past few years both State and Federal governments have been called upon to perform an ever increasing number of duties once thought to lie exclusively within the realm of private charities or local communities. More and more, people in every walk of life and every character of business are demanding additional protection and security at the hands of government. This increasing demand has necessarily increased the necessity for revenue. We inherit that problem along with an antiquated tax structure.

In determining how revenue should be raised for support of the State government, we must proceed along one of two theories: either adequate revenue must be raised to pay the deficit and meet current operations of the State without serious thought to the source of collection; or a system of taxation should be worked out that will be fair to those called upon to discharge the State's economic responsibilities. Personally I cannot subscribe to a tax plan which, although it guarantees revenue, at the same time offers patent inequities or unfairness. I believe the Governor and the Legislature should first consider how the tax revenues of the State are to be raised rather than how much we are going to raise.

Deficit.

The State Auditor has reported that the accrued deficit inherited by this administration as of August 31, 1934, was $6,998,178.07. The same official has estimated that the deficit in the General Revenue Fund as of August 31, 1935, will be $9,443,822.89. There will be also a deficit of $5,181,783.83 in the Confederate Pension Fund. In addition to this inherited liability, we must remember that in the past two years the State has spent more than $16,000,00.00 out of the $20,000,000.00 bond issue voted by the people for relief of the needy and unemployed.

Present relief demands necessitate an almost immediate expenditure of the remaining part of that $20,000,000.00. A short time before February 1st the Federal Government gave notice of its intention to discontinue all direct relief. The State must bridge the gap between February 1st and that nebulous time in the future when either permanent work projects have been approved by the Federal Government for the State, or that more nebulous time when the unemployed will find again private employment.

In my judgment, it is not a sound business policy to try to liquidate the total obligations of the State and retire this deficit within a single year or even a biennium. Few concerns of any magnitude find it possible to liquidate a deficit within such a short period of time. Taxpayers

should not be called upon to keep the State's assets liquid during this period of economic hardship. The deficit, however, is of such alarming proportions that we should at this time begin a constructive effort toward its ultimate retirement; and, in any event, it should not be permitted to increase.

It is apparent then that this Legislature finds a deficit of $14,625,606.72, the current expenses of a government whose demands have necessarily increased, and the tremendous problem of relief, with practically all of the twenty million dollar bond issue already spent by those who have preceded us.

Equalization of Tax Burdens.

The owners of real estate, particularly farm and home owners, are borne down with tax loads too heavy to bear. They are entitled to relief; and as a part of our tax problem this Legislature is charged with the duty, yet is given a golden opportunity, to devise a method whereby a portion of these burdens may be shifted on to the shoulders of those more able to pay.

In equalizing the tax burdens you and I are going to tread on somebody's toes. We may as well frankly understand this at the outset. We are, however, confronted with a patriotic duty of necessity. The great masses of the people have got to have tax relief. If they are to get it, it must be at the hands of a Legislature and a Governor of conviction and courage. It would be easier, of course, for us to sidestep the issue by the Governor failing to make such tax recommendations or the Legislature failing to act. This would, however, but postpone the day of reckoning and none of us would have any genuine respect for ourselves.

One of the greatest difficulties in Texas government today is the fact that our State is an immense empire within itself with varied and conflicting interests. In many instances, that which is for the welfare of one section of this great State is opposed to the best interests of another section. More and more political campaigns and administration of the government are becoming conflicts between powerful interests. Various groups keep well organized, well financed and intelligent, paid representatives at the scene of legislative battles to protect their interests. The great masses of the common people have no protection other than that which you and I afford them.

The levying or increase of taxes affecting any particular business or industry, or any class of citizenship, is bound to arouse antagonism. Indeed, the very suggestion in a message by the Governor or in a bill introduced by a member of the Legislature is sure to draw the fire of criticism and opposition. You and I must be prepared to face it.

Earnestly and sincerely I urge that all of us dedicate ourselves wholeheartedly to duty, remembering we are here to represent, not some particular industry or some geographic section of the State, but the best interests of Texas as a whole. We simply must make an intelligent approach to this, the greatest problem of government—equal and uniform taxation. It can only be done if we divest ourselves of selfishness, partisanship, bias or prejudice and labor honestly, diligently and courageously.

In discussing and suggesting various tax levies in this message, I want you to bear in mind that my only desire to be of assistance, if I can, in straightening out injustices under our present system; and in the hope that thereby we can give needed relief to the average man, the home owner, the farmer, the harried business man.

Graduated Chain Store Tax.

In determining the type of revenue raising measures which must be passed by this Legislature to secure revenue sufficient to carry on the government, and to insure State cooperation in the problem of relief, this Legislature should not be unmindful of the mandates expressed by the people of Texas in the Democratic elections last year. In that election I believe the people expressed themselves overwhelmingly in favor of a real chain store tax. I commend it to your consideration.

It is my belief that a chain store tax should embrace certain fundamentals. In the first place, it should be designed to include all of the principal chains in Texas without reference to whether they are engaged in the business of selling gasoline, lumber, food products, or other articles for retail distribution. In the second place, I believe it should be based upon the cardinal idea of ability to pay. Finally, I believe that

the rates should be high enough to compel foreign chains to pay into the State treasury sums adequate to discharge their proportionate share of the responsibilities of the State government.

It is not my policy in submitting such a bill for your consideration to interfere unreasonably with the operation of the local chain store. Primarily the legislation should be designed to compel the foreign chain, now escaping taxation, to contribute its part toward the financial upkeep of the State.

Practically all of the big chains are foreign chains. Therefore, a graduated chain store tax, increasing according to the number of stores and the amount of gross revenues, will secure the desired end—that is, needed revenues and, at the same time, tend to equalize unfair competition between the great foreign chain stores, with their tremendous capital, and the little home owned stores.

A bill prepared by the State Tax Commissioner will shortly be introduced. It is intended to embrace the fundamental necessities pointed out above. Briefly stated, it is a graduated chain store tax based and graduated upon the number of stores and the gross revenues.

I recommend the passage of a bill embodying substantially the principles of S. B. No. 188, placing a tax upon itinerant merchants and fly-by-night dealers who pay no taxes for the support of government. It will afford a small source of revenue and, at the same time, tend to protect legitimate merchants in every town and community from this unfair competition.

Petroleum Tax.

Texas now produces almost half of the crude petroleum output in the United States. This production represents not only a major industry in the State, but the chief natural resource as well. The Oil and Gas Journal reflects that for the twelve months period ending August 31, 1934, Texas produced 41.94% of the crude petroleum produced in the United States; Oklahoma produced 29.21% and California produced 19.65%. These three states produced 81.88% of the total crude petroleum produced in the United States.

The Bureau of Mines of the United States Department of Commerce shows that for the calendar year 1932 the gasoline yield per barrel of crude petroleum was 18.77 gallons. Other sources of information reflect the yield to range from 15.12 gallons to 22.01 gallons per barrel for the year 1933.

During the fiscal year ending August 31, 1934, the Comptroller of Public Accounts reports a production tax paid to the State government on 364,721,615 barrels of crude oil. Assuming that only 15 gallons of gasoline could be produced from a barrel of crude oil, and employing the barrelage shown by the Comptroller, the crude petroleum produced in Texas yielded 5,470,824,225 gallons of gasoline. On a 16 gallon yield per barrel of crude oil, Texas produced a total of 5,835,545,840 gallons of gasoline.

The report of the Comptroller further shows that the gasoline tax in Texas yielded $33,879,648.00 for the fiscal year ending August 31, 1934, This figure represents the tax on the total gasoline consumed in the State, as the law provides that the tax be paid on all gasoline at the time of the sale. Since the State gasoline tax is four cents per gallon, the total amount collected represents a tax paid on 846,991,218 gallons of gasoline consumed in Texas. Since it may be assumed that the consumption of other petroleum products is in the same ratio as gasoline, then approximately 15% of all other products from petroleum are consumed within the State. Using therefore a gasoline yield of 15 gallons of gasoline per barrel of crude oil, the citizens of Texas consumed only 15.48% of the crude petroleum produced by the State of Texas. If the gasoline yield be 16 gallons, then Texas consumed only 14.51% of the total crude oil production.

In other words, approximately 85% of the crude oil of Texas is consumed beyond the boundaries of the State. Our citizens pay a gasoline tax of four cents per gallon on every sale within the State; yet purchasers of gasoline in other states and in other countries secure the same gasoline without paying any tax at all to Texas where these irreplaceable natural resources are found.

I recommend that this Legislature make a careful investigation into the present tax on crude oil with the view of equalizing the tax burdens borne by various natural resources of Texas. In levying a tax against crude, I believe this Legislature should consider the fact that it is subject to depletion and that eventually it will be taken forever from Texas soil. They should consider further the fact that the oil industry is a money making industry even in the midst of these dark days of economic depression. The Legislature should consider the fact that about 85% of oil produced in Texas is used outside Texas borders.

We all know it is impossible to shift a severance tax on oil 100% to the consumers of Texas oil in other states, but it can be shifted to a great extent, and this fact should have the consideration of the Legislature. I believe that oil, sulphur and all other natural resources should bear a relatively high part of the State's financial upkeep and that the tax on any particular natural resource should be equalized from a comparative standpoint with the tax levied on all other natural resources. It is impossible to undertake this problem of equalization without a sweeping and careful investigation, and I urge upon this Legislature such an investigation, detailed and careful enough that it will ascertain the facts.

The present tax on crude is 2¢ a barrel up to $1.00 in value, and 2% thereafter. Any increase in this tax should be determined by a proper consideration of the factors affecting the sale of petroleum products outside the State. By this I mean we should not so increase the tax as to place Texas petroleum at a disadvantage in competitive markets also supplied by foreign oil or oil from other states. If the increase is excessive or unreasonable, then independent Texas producers might be forced to absorb an additional burden in disposing of their products to major oil and pipe line companies. These integrated major organizations are already able to largely shift the burden of the petroleum tax to those outside the State.

If, in keeping with this recommendation, the Legislature sees fit to increase the tax on crude, it may enable us to effect reductions in the ad valorem rate. If your investigation indicates that all natural resources should have a general increase in production tax, then I urge that you take appropriate action. These reductions would, of course, accrue to the benefit of persons or corporations owning taxable property within the State, including even the producers of natural resources who would contribute to the increased natural resources tax.

If the Legislature should raise additional revenues from other sources, but not deem it advisable to reduce the ad valorem tax from the level of 77¢, then I suggest that a portion of the revenues derived from any increased severance tax on oil should be placed in the Permanent Free School Fund of Texas. No doubt, a day will come when the natural resources of this State will have been drained from under the earth. When that day arrives a potential source of revenue will be exhausted, one which should largely be paid at the present time by people outside the State who benefit from our natural resources. We owe it to posterity to retain for them a portion of these great natural resources, which we by production deny to them as an inheritance.

Gas

Second most important of the natural resources of this State is natural gas. Located in the Texas Panhandle field alone is the largest single natural gas deposit in the world. For more than 125 miles gas deposits, ranging from 15 to 35 miles in width, stand ready for development. At the present time this gas is largely blown into the air. While it is not possible to know the exact gas production in Texas, it has been estimated that last year there were produced more than seven hundred billion cubic feet. Of this, more than three hundred billion cubic feet were blown into the air and forever lost to the use of man.

The total tax paid the State on this tremendous production was the miserable sum of $228,956.00, which included the gasoline tax paid on casinghead gasoline made by stripping the natural gas. The present tax is two per cent of the average market value of gas produced and sold within this State.

I recommend a flat tax on nat-

ural gas of one cent per thousand cubic feet. This should be a severance tax levied and collected from the lessee or purchaser of natural gas.

At present there are many outstanding contracts in the Texas Panhandle secured by major gas producing companies when the Panhandle field was undeveloped and when, therefore, the contract price was extremely low. The average value, therefore, is merely nominal in most instances; and two per cent of that average value, as the preceding figures reflect, produces comparatively no revenue at all to the State.

Perhaps the most lamentable feature, aside from the waste of our natural resources discussed in a recent message to the Legislature, is the fact that a large part of remaining gas is transported by pipe lines to other states and distant cities—tax free so far as Texas is concerned. We should not permit these great natural resources to be drained from under Texas soil and sold outside its borders without receiving some compensation, representing at least a minute part of the value of the product.

Statistics are not available to reflect the amount of the gas used in Texas. Suffice to say, the great cajority of Texas gas is used outside our borders, and, therefore, a severance tax assessed against the lessees will largely reflect a payment into the State treasury by those using natural gas in other states.

Under present production we would realize about $7,500,000.00 annually from a tax of one cent per thousand cubic feet. If such a levy is made, and this waste is prevented, production will likely fall; but, in my judgment, a one cent tax would still produce in excess of $4,000,000.00 annually. Of this amount, less than one-sixth will be paid by the citizens of Texas, and approximately five-sixths by those residing outside the State.

Sulphur and Other Natural Resources Taxes.

In this connection I also recommend an increased tax on all other natural resources of the State, with particular emphasis on the sulphur trust. Texas produces such an overwhelming part of the world's supply of sulphur that two companies have a virtual monopoly in its production. We may ultimately expect these sulphur domes to become exhausted, and it is just as wrong to permit the exploitation of our sulphur deposits without substantial contribution not only to carry on the government, but for the education of our children as well, as it is to stand idly by and see our natural gas either blown into the air or transported to other states.

There is no doubt that the large sulphur companies operating in Texas have paid themselves out many times over. Their profits have been stupendous. There is likewise no doubt that in the past they have not contributed anything like their fair share to the support of either state or local government.

Several bills are now pending before you proposing to increase the tax on sulphur. In my opinion, the increase should not be nominal, but substantial.

Tax on Pipe Lines.

In discussing with this Legislature last week the causes of the shameful waste of natural gas in the Panhandle fields, I pointed out the shocking evil in our corporate existence of giant integrated concerns engaged in the production, transportation and sale of natural gas. This same evil is perhaps more pronounced in the oil business. It has become a matter of common knowledge that the average independent producer, refiner or marketer is waging a one-sided and losing battle against giant integrated concerns authorized by law to produce, refine, transport and market oil and petroleum products. What fair chance does the independent producer of oil have when he must pay a tremendous tariff to transport his oil through the lines of his giant competitors?

This unfair competitive condition was recognized by the entire industry and by the government in the promulgation of the petroleum code adopted under the National Recovery Act. It was provided in this code that each branch of the industry—that is, the producing, the refining, the marketing and the pipe line department—should stand on its own bottom and operate at a profit in that particular department. This was necessary because undeniably most of the major companies doing business in this State carried on the marketing, refining and, ofttimes,

producing ends of their business at a loss, only to more than make up for this loss in unconscionable profits derived from their pipe lines. Shocking figures showing the staggering profits made by these companies are on file with the Railroad Commission of Texas.

In 1934, while operating at a loss in the refining and marketing ends of the business, twenty pipe line companies (owned by their producing, refining and marketing brethren) reported to the Secretary of State a total net profit of more than $78,000,000.00. One giant concern made more than $13,000,000.00 net. Another more than $11,000,000.00 net. Another more than $10,000,000.00 net. Another more than $8,000,000.00 net.

At present Texas collects an ad valorem tax against these pipe lines; and, in addition, an intangible assets tax and one-fifth of a franchise tax—an extremely limited sum.

As pointed out above, the net profit of twenty pipe line companies is more than $78,000,000.00, an average of 25% profit in one year upon their investments. At the same time these companies all together pay the State the magnificent sum of $10,030.79 in one-fifth of a franchise tax. If they had paid the whole five-fifths, it would only have been a total of about $55,000.00.

Later on in this message I shall point out the manner in which this one-fifth of a franchise tax was placed on the statute books. For the present I recommend that a franchise tax of one per cent be levied against the gross assets of pipe line companies—both oil and gas—in Texas. Such a tax would yield to the State a million dollars annually on the assets of these twenty oil pipe line companies alone—only 1/78 of their combined net profits. Such a tax would, I think, be equitable in view of the tremendous net profits earned by these pipe line companies.

Franchise Tax.

I now call your attention to existing evils in the franchise tax structure applicable to corporations doing business in this State. The franchise tax report law requires much detailed information, difficult to compile; and in the cases of some small corporations, is such a costly procedure as to render careful reporting virtually impossible.

I recommend that more discretion be given the Secretary of State as to the data to be required in franchise tax reports. This administrative officer may from time to time make applicable such reports as may be best suited to the various types of corporations operating in Texas. Such discretion will solve an inequity from the standpoint of the small company, and, in addition, produce a greater amount of revenue for the State.

I further recommend that the Secretary of State, as the franchise tax collecting agency, be given full authority to make an independent examination of any corporate records to determine whether the report as made by the corporation clearly and accurately reflects the condition of the business upon which a tax is to be paid. To accomplish this, it may be necessary to provide the Secretary of State with some additional accountants, but by so doing thousands of dollars will be recovered in taxes already due and not paid, as well as greatly increasing the franchise tax collections in the State in the future.

I recommend the repeal of Article 7084-B of the franchise tax law. This article provides that any company subject to the intangible tax law shall be required to pay only one-fifth of the amount of franchise taxes paid by other corporations not included within the terms of the intangible tax law.

I call your attention to the fact that a franchise tax represents a tax enacted against the privilege of maintaining an artificial entity within the safeguards of constitutional rights given to natural persons. There is no reason why this privilege tax should be eliminated in favor of the companies paying the intangible assets tax when they are enjoying the same privilege and the same governmental protection accruing to those who are required to pay the franchise tax.

The intangible assets tax act did not impose upon corporations subject to such law any new tax to which they were not already liable. Intangible assets are taxable under the Constitution just the same as tangible property. As a practical matter, however, it was difficult for counties through which railroads or pipe line companies, for instance, might pass to make a fair levy upon intangible assets of such companies.

It was for this reason the intangible assets tax law was passed.

Undoubtedly at the time of the passage of Article 7084-B (which provided that corporations subject to the intangible tax law should be required to pay only one-fifth of the amount of franchise taxes paid by other corporations), the argument was made that such corporations should only pay the one-fifth tax because it had been subjected to a new tax, to-wit, the intangible tax. This argument and this reason were based upon a false premise because, as pointed out above, the intangible tax law did not levy a new tax, but only provided a method for ascertaining and levying a tax to which such corporations were already subject.

If the railroad companies of Texas had not been able to take advantage of this section they would have paid into the State $207,568.00 in franchise taxes. Actually the railroads paid in franchise taxes $41,641.00. The intangible valuation of railroads as certified by the State Tax Board as of January 1, 1934, was $39,329,295.00, which at the State tax rate of 77c per $100.00, will yield an ad valorem tax of $302,835.00. As a result of Article 7084-B of the franchise tax law, the State sustained a loss in franchise taxes on railroad companies in the amount of $165,927.00. When this loss in franchise taxes is deducted from the amount collected in ad valorem taxes on intangible valuations, the net revenue to be collected by the State is only $136,908.00.

Oil pipe line companies actually paid to the State only $11,525.00, whereas if Article 7084-B had been repealed, those same oil pipe line companies would have paid a franchise tax of $49,088.00. Bridge companies paid in franchise taxes $245.00, whereas, if it had not been for Article 7084-B, bridge companies would have paid to the State $1,064.00. The total loss, therefore, in franchise taxes to the State of Texas is equal to $204,309.00 per year.

I recommend a law requiring all notes and bonds, regardless of their maturity dates, to be included in the taxable capital of private corporations upon which a franchise tax must be paid, but such notes and bonds to be included, in computing the taxable capital, upon the basis of the average monthly balance. By this I mean that the notes, bonds and debentures outstanding at the end of each month should be ascertained, and the average amount so outstanding over a period of a year will be the average monthly balance. Under our present law a corporation can borrow on February 1st and use it ten months without paying a tax.

When the present franchise tax law was passed, it was feared that if notes and bonds of a maturity date of less than one year were included in the taxable capital, the courts would hold the law invalid on the ground that the franchise tax was payable on an annual basis. It is my opinion that by the use of the average monthly balance, this objection may be eliminated, and all notes and bonds could be included in computing the taxable capital. Numerous cases in the past reflect that corporations have converted notes of maturity dates longer than one year into notes with a maturity date of less than one year, or into demand notes, and in other cases have converted their long term bonds into non-taxable securities. In most instances these notes are payable to affiliated or holding companies. These manipulations are for the sole purpose of decreasing taxable capital of corporations, thereby reducing the franchise tax. I recommend, therefore, that you consider methods of making such tax evasions impossible.

Without making specific recommendations at this time, I want to call the attention of this Legislature to the question of shifting the basis of franchise taxes from the capital stock to the gross assets of incorporated companies. That is, I believe it might be a wise policy to calculate the amount of franchise taxes owned by a corporation in this State upon the basis of gross assets of the company within the State rather than upon capital stock which is subject to manipulation.

There are possibly other recommendations which should be made with reference to the existing franchise laws, but these recommendations I shall make from time to time by submitting bills to you for your consideration, or by supplementing this present message.

Inheritance Tax.

I also recommend for your consideration a substantial increase in the inheritance tax rate. There is little justification, whether of economic right or social policy, for permitting

individuals to inherit enormous sums of money without substantially contributing to a government that has made possible the accumulation of such wealth, and which guarantees its continued existence and its passage to posterity. Particularly do I favor an increase of the inheritance tax in view of the fact that it, perhaps more than any other levy, exacts revenue from those able to pay.

Sales Tax.

In fairness to the people I could not conclude any discussion of new revenue raising measures without reiterating my opposition to a general sales tax. This issue was fairly and squarely raised in the campaign for Governor, and the people have already voted upon it. Because of that issue which was definitely settled in the campaign for the Democratic nomination for Governor, the party platform, to which we are pledged, clearly and unequivocally denounces the general sales tax.

In this message I have pointed out that, in my humble judgment, any tax measure should be based upon certain fundamentals—the extent of the services rendered to the government, and the ability of citizens to pay. A general sales tax includes neither of these principles. It has been adopted by a number of states merely because they found it an easy way to raise money in a time of economic distress.

Officials of those states which have passed a general sales tax of necessity become advocates of a similar measure in other states for the simple reason that their own state is experiencing one of the inequities necessarily flowing from a sales tax. A retail sales tax necessarily places a burden on those who do not live near the border of the state and upon whose purchases are so small that they cannot afford to employ interstate commerce to avoid tax responsibilities. To escape loss of revenues by interstate purchases, the officials of states which have adopted a general sales tax are advocating that other states pass similar measures.

Personally, I cannot submit to the high pressure advertising of those states unfortunate enough to be laboring under the difficulties of the general sales tax. I cannot submit to a tax that will be borne by people who, because of their geographical location, are not in a position to escape payment; or one which will penalize our home merchants and industries. I cannot advocate a revenue raising law that offers an inducement to the rich to employ interstate commerce and which, at the same time, penalizes the small individual buyer.

In a bulletin published by the American Legislators Association, analyzing the general sales tax, statistics are cited to show that under a 2% general sales tax persons with an income of one thousand dollars, or less, will pay $12.18 per thousand dollars of income; whereas, persons receiving more than a million dollars a year will pay only 20c per thousand dollars. Under a 3% general sales tax incomes of one thousand dollars or less, will pay $18.27 per thousand while those with incomes of more than a million dollars a year will pay only 30c per thousand.

These statistics do not reflect a theoretical tax structure, but show actual application of the general sales tax.

The suggestion has been made that the general sales tax be submitted as a proposed constitutional amendment to the people with the inducement that a portion of it be used for the purpose of retiring local bonded indebtedness. May I respectfully remind the Legislature that the pepole have already spoken on this issue. Further, that a general sales tax is a tax on poverty, irrespective of the purpose for which it is levied.

To illustrate: The chief proponents of a sales tax are the chief opponents of an income tax. They advocate a 2% sales tax which is nothing more than a 2% income tax on the average man because he is compelled to spend all he makes for the nceessities of life. As pointed out above, those with great incomes spend only a small part in such manner that it would be reached, their investments being chiefly made in stocks and securities beyond the boundaries of the state from which their profits flow.

I want it distinctly understood that I do not intend to criticise or question the motives of all who advocate a general sales tax. Many of them are patriotic citizens sincerely concerned with the welfare of their state. They have, however, perhaps unconsciously, become followers of the chief proponents of a general sales tax—the so-called American Taxpayers Association and other lob-

by organizations which congressional records show have been financed by contributions from the utilities, the investment bankers, the Mellon interests and others. These same advocates of a general sales tax would cry out "Injustice! Injustice!" if the Legislature proposed even a 2% income tax so as to reach those who are really able to pay.

Selective Luxury Tax.

As contrasted to the general sales tax, a selective luxury tax has been suggested. It is my belief that such a tax may help to fill the gap in our system of taxation and produce much needed revenue.

While a selective luxury tax is in effect a tax on a few retail sales, it is to be distinguished from the general sales tax in that it is essentially a tax on privilege and wealth. Like the income tax, it embraces that cardinal principle of ability to pay, and at the same time provides a wider spread. That is, people in all walks of life are liable to become subject to this levy, but only at their option.

The tax should not be levied upon any necessity—only upon non-essentials; and when one's purchases, by his own choosing, enter the realm of luxuries, he is thus evidencing the possession of a surplus amount of wealth over and above that necessary for the sustenance of life. It is but fitting, therefore, that he should contribute a small portion to the government that made possible the accumulation of this surplus, protected it after it was acquired, and rendered him safe in the enjoyment of these same luxuries.

The general sales tax, on the other hand, is a tax which, in its ultimate effect, operates principally on the necessities of life. It affords no option to the consumer, but must be paid if he would subsist. It follows that under such a tax a far greater proportion of the small wage earner's income is taken by the government than is exacted from those with greater incomes. Thus the tax bears heaviest on those who can least afford it. There is, however, some justification for the selective luxury tax.

Income Tax.

I call to your attention a tax system I consider one of the fairest and most equitable levies that the State could make. I do this not in the spirit of advocating excessive new taxes, nor for the purpose of raising an excessive amount of revenue by the State, but only for your deliberate consideration and legislative action in the event you deem it necessary to secure additional revenue after passage of or failure to pass the other tax measures which have been recommended in this message.

The income tax has always received criticism for the reason that a great number of persons affected thereby are also owners of property subject to the ad valorem tax; and who are, consequently, called upon to pay an income tax after they have paid an ad valorem tax upon the property which was the source of their income. Further, an income tax has received criticism as an invasion by the State of a domain of taxation already preempted by the Federal government.

If an income tax is enacted it should begin with comparatively low brackets bearing an extremely low rate, with a graduated rate upon each bracket of income in progression. I recommend that you consider as an ancillary provision in such an income tax a provision to the effect that the amount of the ad valorem tax paid by an individual owing an income tax shall be deducted from the amount of the income tax earned from the property on which the ad valorem tax was paid.

Let us suppose that an owner of an office building in Austin should have an annual income of $50,000.00 from such building upon which an income tax of $10,000.00 was payable. Let us assume that that individual has paid to the State in ad valorem taxes upon his building $8,000.00. Let us assume that located in one room of that building is a stock broker whose annual income is likewise $50,000.00, and who owns no tangible property other than his office furniture and home equipment. When called upon to discharge their income tax burden, we should permit the owner of the building to deduct from the $10,000.00 which he owes in income taxes, the $8,000.00 which he has paid in the form of ad valorem taxes, but we should assess and collect against the stock broker 100% of the tax on this $10,000.00 income because he has

not in any other way discharged his responsibility to the government.

Objection may be raised to this method of taxation that there will come years when neither the stock broker nor the owner of a building will realize any income at all; the rents from the building will be negligible, and the profit on stocks and bonds will drop to nothing, yet the tax against the building will be still assessed and collected, while the broker will pay no tax at all.

The answer to such an objection is readily apparent. The owner of a building has a piece of property made valuable only because society, fostered by the government, has made his property valuable by the building of a city and the maintenance of a stable government to preserve his investment. He receives therefore, in terms of benefit, something which a stock broker, not owning property, does not receive. This tax, in my opinion, embraces both the principle of ability to pay and of the service rendered by the government. It blends the two principles into a coordinated policy that may well receive your consideration. Even though the Federal government now exacts an income tax, there is no reason why the State of Texas should permit individuals with large incomes to escape payment of part of the financial responsibilities of the State in which the income was earned merely because the Federal government has chosen to invade that field of revenue.

Property Classification Tax Amendment to the Constitution.

The great burden of taxation weighing so heavily upon the people is not in fact due to State levies, but rather to combined local taxes, city, county, school, road district, etc. No real tax relief can come to the people without an intelligent solution of the problem of local taxation.

It is difficult for the Legislature to deal with this question because of the limited character of property subject to taxation for the upkeep of local governments. In other words, the State has a broader base for properties subject to taxation than local communities. In addition, the great bulk of local taxes is due not alone to the actual operating expenses of local governments, but to various contractual obligations, such as bond issues floated in boom times, which now must be retired from taxes on properties greatly diminished in value. This Legislature should, however, make a careful study of the problems of local taxation and, if possible, begin the operation of a long range program to relieve taxpayers from these local burdens.

This can be inaugurated, as pointed out at the beginning of this message, by securing State revenues from other sources and relieving, to some extent, real estate, farms and homes from a portion of the State ad valorem taxes.

One of the primary causes of the inability of local government to give tax relief is the fact that only slightly more than 50% of the taxable property and wealth of Texas is on the tax rolls. Reliable surveys of estates under administration in various counties in Texas disclose that almost 50% of the properties under administration are intangible and that only 3% of these intangible properties appear on the tax rolls.

The Forty-third Legislature submitted to a vote of the people S. J. R. 16 which would have permitted classification of property by the Legislature for the purpose of levying low tax rates against a type of intangible property (such as notes, bonds, mortgages, etc.) not appearing on the tax rolls. It is a matter of common knowledge that this character of property has neither been rendered nor assessed because, it was argued, to tax intangible property at the same rate as other property would operate as a discrimination against investment securities.

This constructive constitutional amendment was defeated. Personally, I believe the people did not understand it and that it was misrepresented to them. For instance, the inane argument was made that the adoption of this amendment might operate to do away with the homestead exemption and exemptions in favor of religious and charitable institutions.

A new resolution, S. J. R.—, proposing another constitutional amendment, is now pending before the Legislature. It is so clear in its terms that no such arguments can be made against it as were made be-

fore. In my judgment, it should be submitted to a vote of the people. If it carries, it will not only place property on the tax rolls for State taxation but for local as well; and it will enable the Legislature to place a fair rate upon intangible property, low enough not to encourage concealment and yet sufficient to result in substantial collections both for the State and local units of government.

In the meantime, however, I recommend that it be provided by law that no note, bond, mortgage, or other intangible security shall be collectible at law in this State unless it first be registered with the county clerk. Of course, only a nominal fee should be charged for this registration service, but the property will then be accessible to local authorities for assessment purposes.

The law now provides a penalty for failure to render property for taxation. I suggest that a statute be enacted requiring district judges at each term of the district court to charge the grand juries to investigate failures to properly render property for taxation.

If these steps are taken, in my judgment, those who conducted the organized fight against adoption of the classification tax amendment will then be ready to join hands with all of us in urging its passage in order that a fair rate may be levied against this character of property.

Tax Evasions.

A problem of increasing magnitude in Texas is that of effectively stamping out tax evasions made possible by the technical construction of revenue raising laws or by the absence of any statute. Consideration of the innumerable leaks in present tax laws would unreasonably extend my recommendations to this legislative body. I do earnstly recommend that you consider the report made by the Senate program committee printed in the Senate Journal of February 21, 1935, wherein they have pointed out simple remedies that will in many instances greatly increase the revenue of the State.

For example, I call your attention to Article 7070, of the Revised Civil Statutes, purporting to tax gross receipts of telephone companies. This article provides for the filing of reports "showing the gross amounts received from all business within this State . . . . in the payment of charges for the use of its line or lines, telephone or telephones, and from the lease or use of any wires or equipment." A casual reading of the article would lead one to believe that the gross receipts tax is levied upon all the receipts of such companies. Indeed, I have no doubt that the Legislature at the time of the passage of this article intended to levy such a tax on all the gross receipts. Actually, however, the receipts to be taxed are limited to "charges for the us of its line or lines, telephone or telephones, and from the lease or use of any wires or equipment."

The Comptroller has discovered that the operators of these telephone utility companies secure large returns from various other sources than those enumerated in the statute. The Attorney General correctly held, however, that these additional sources of revenue, such as advertising in telephone directories, are not subject to the gross receipts tax.

I recommend that Article 7070 be amended so as to levy a gross receipts tax on revenues from all sources and from uncollected accounts. Under the present law, no such tax can be collected.

I call your attention to Article 7343, and suggest that you clarify the lien given to independent school districts to secure their taxes. Further, that you consider the creation of a tax lien that will follow oil after it has been removed from the earth in order to secure the ad valorem tax due by mineral estates.

We must not be unmindful of the fact that one of the primary difficulties with the existing system of taxation is the fact that under present administration, less than half of the actual taxable property is actually being placed upon the assessment rolls, resulting, therefore, in necessarily increased burdens on property submitted for taxation. It is my purpose in calling your attention to the existing tax leaks, to solve, at least in part, the problem of tax inequities by making actually uniform the system of practical assessment and collection, made theo-

retically uniform by that provision of the Constitution requiring that all taxation in this State be equal and uniform.

Tax Delinquencies.

Turning now to the subject of delinquent taxes, I call your attention to a problem I believe to be fundamental. The working out of any tax to a large extent depends on the certainty of payment. It is bad policy, whether a tax be wise or unwise, just or unjust, to encourage a system of laxity and evasion by permitting taxes to remain delinquent over a long period of years and by deferring enforcement of those taxes until after huge sums have accumulated against the property. In order to enforce the collection of taxes there was originally designed a delinquent tax law providing for the institution of delinquent tax suits by county officials and for the sale of property at sheriffs' sales after judgment had been rendered, with the right of redemption remaining in the taxpayer for a period of time.

We are all familiar with the political aspects resulting from placing this responsibility in the hands of county officials. Without any unjust criticisms, but stating an obvious fact, we have come to realize that tax collectors are actually tax receivers. The number of suits instituted for collection of delinquent taxes, and the number of judgments secured are almost negligible. As a result, huge sums of money are now due the State in delinquent taxes, with little or no effort being made to secure their payment.

It is my recommendation that there be placed in the State Tax Commissioner some elements of control over all local tax assessing and collecting agencies in the State of Texas. I recommend a law providing that tax collectors and assessors shall be required to make a quarterly report to the State Tax Commissioner in such manner as he may provide, reflecting the efforts made by all county officials to actually collect taxes that have become delinquent and to secure full renditions; and at any time that such local authorities should not discharge the responsibilities incumbent upon them in this regard, the Tax Commissioner should be authorized to certify that fact to the Comptroller of Public Accounts, who will from that date suspend all payments to such county officials who have been negligent or wilful in the failure to discharge their responsibilities. I make this proposal, not because of lack of confidence in local officials, but in the realization that it is necessary to remove in part the source of actual responsibility from the county to the State in order to insure the certainty of tax collections.

Under such a system, if a tax is thought to be unfair, such unfairness can best be realized by strict enforcement. It is no excuse for refusal or failure to collect taxes to say that the levy is unfair or unjust. If such inequity does exist, it should be specifically attended to by the Legislature, but actual collection and certainty of enforcement of existing tax measures should be placed beyond the realm of doubt by this Legislature.

Tax Assessments.

In connection with this, I also recommend that the State Tax Commissioner be given a staff of six employees, qualified as experts in evaluation and taxation matters, to assist the commissioners' courts of various counties, sitting as boards of equalization, in arriving at the value of oil, gas, sulphur and other mineral interests of the State, as well as the properties of public utilities and similarly organized private corporations. The major oil companies, the sulphur companies, and all private utilities maintain continuous tax departments manned with experts who are constantly gathering material to attack the judgment of boards of equalization, composed usually of farmers, ranchers and small merchants who are at the mercy of the better qualified tax experts.

I do not mean that the State should send an expert into every county; I do mean that certain counties within this State where mineral interests are located, and where large utility concerns have huge holdings, should be given the advice and aid of experts who are capable of coping with those employed by private concerns. Such assistance would not be unduly costly, and would result in a tremendous increase in mineral and utility property valuations, substan-

tially increasing revenue, state and county.

Other probelms dealing with tax assessments should receive attention by this Legislature. I shall from time to time direct your attention specifically to these problems within the next few days.

Tax Administration.

Any survey of the financial situation of the State of Texas would be incomplete without surveying the mechanical arrangements set up by existing statutes for collecting and disbursing the State's tax money. In this connection let me respectfully call to your attention a statement appearing in the report of the Joint Legislative Committee on Organization and Economy, made to the Forty-third Legislature in 1933, which said: "There has probably been less progress in financial administration than in the administration of any other function of the government."

At the present time there are innumerable tax collectors who share responsibility in collecting State taxes. In the first place, each of the 254 county tax assessors and collectors acts entirely independently of other collectors of ad valorem taxes on both real and personal property. The Comptroller of Public Accounts, an officer whose name would indicate functions of current auditing and accounting control, now collects the bulk of the State taxes other than those collected by local tax collectors. In addition, the State Treasurer participates in the collection of State taxes, as does the Secretary of State, the Insurance Department, and other agencies of the State government.

In order to have effective tax administration, it is the responsibility of government that the collecting authority be fixed and centralized under a single responsible administrative head. We must not be unmindful that the State proposes to collect its revenue by a system or plan of taxation. In such a system, each individual tax represents a part—not an entity—separated or differentiated from all other taxes. Each tax should so balance with every other tax that it becomes an integral part of a well conceived tax plan. It can only lead to inequity and unfairness to tear from a unified tax system a single tax and administer it separately from other taxes, without thought as to how it may fit into a unified financial program.

Further, the administration of any tax is a technical and difficult task, requiring continuous study, supervision and specialized training to penetrate ever increasing complex business structures. In this connection the collection of taxes should not be confused with the regulation of public business. The regulation of a corporation in no way requires as an ancillary weapon the administration of a corporate tax; the regulation of insurance companies does not require that the same administrative head levy and collect insurance taxes. To one field of the government properly belongs the duty of regulation, and to an entirely different field belongs the function of tax administration.

I therefore recommend for your consideration the ultimate unification and centralization of state tax administration in Texas under a single administrative head. Such a result may not be possible or expedient at this session of the Legislature, but the policy of such centralization should be definitely begun.

Budgetary Control.

Once taxes have been collected by the State and become a part either of the General Revenue Fund or of some special fund of the State government, the State must then solve a problem of sensible spending as well as sensible collection. To that end I direct your attention to the budgetary control existing as a part of the State government.

The Board of Control is now charged with the responsibility of preparing for each biennium a budget for consideration by the Governor and the Legislature. The Board of Control is already an over-burdened agency of the State government, being required to administer, among other heavy duties, the State's eleemosynary institutions; and now constituting the State Relief Board. It is impossible for the Board of Control to prepare effectively a budget for the entire State government with sufficient financial data on the work of all State agencies. It is impossible for the Governor to consider properly a budget so prepared within the short time permitted after the recommendations of the Board of Control.

I therefore recommend a more effective budgetary control on a plan substantially similar to that employed by the Federal government and by a few of our sister states. With increasing demands constantly being made upon our State government, it is essential that we now face the problem of financial planning for the future.

Effective budgetary procedure involves certain definite stages: first, the formulation of the budget, including the preparation of estimates and the formation of a financial plan. The second stage, the authorization of the budget, is the responsibility of the Legislature. The third stage, the execution of the budget, is a further responsibility of the executive department. The last stage, accountability to the Legislature for the budget as executed, should be the responsibility of an agency independent of the executive department and responsible to the Legislature.

Under the National Budget and Accounting Act of 1921, and in a few state governments, a definite distinction among these essential budgetary stages has been drawn. The National act places the responsibility for the formulation of the budget in the hands of a budget bureau under a director appointed by and at all times responsible to the President. This bureau has the power to gather, correlate and revise all financial data given by the various spending agencies. It has the power to investigate and study continuously the financial needs of every governmental agency to the end that a careful financial plan may be developed. Once the budget has been authorized by Congress this bureau has the power to require the spending agencies to furnish financial information, such as work reports and plans, which allows the budget bureau to possess continuous information as to the financial requirements of the government.

In addition the National Budget and Accounting Act established an agency, the general accounting office, independent of the executive department and responsible primarily to Congress for a careful audit of all administrative financial transactions. It may be seen from this survey of the financial system established by Congress that definite steps were taken to put into operation effective budgetary control. The results have been most beneficial, especially during the past few years when financial demands upon the National government have been tremendous and far reaching.

We are faced today in Texas with increasing demands for the extension of governmental functions such as the establishment of a system of old age pensions, the care of crippled and dependent children, and other matters envisaged in the Economic Security Act recently introduced in Congress. A careful study of that Act will show that it will require state financial participation in order to receive funds for each activity contemplated therein from the National government. It behooves us in Texas, then, to consider carefully our present system of financial and budgetary control and to remedy all defects that may appear in this system. We have great need in this State for the collection of proper financial data and the establishment of effective financial machinery for the utilization of this data.

I earnestly solicit your cooperation and ask your very careful consideration of any changes that will allow our State government to adopt an effective financial plan, not for this year alone, but for years to come. I believe that a plan based upon the principles followed by Congress in enacting the budget and accounting Act of 1921 would produce results of tremendous significance to the State government of Texas. Such a plan would produce practical information which might be used by the Governor in planning intelligently the expenditures of the State for each beinnium, and which might likewise be used by the Legislature in arriving at intelligent conclusions as to the financial requirements of the State for the biennium during which they propose to raise revenue. Effective financial control is essential to efficiency and economy in State administration.

Conclusion.

We are now entering upon the 8th week of our services with the Forty-fourth Legislature. The session is almost half over. Big work lies ahead for all of us. I trust that the patriotic arder in our hearts at the beginning of this session will continue unabated. I pledge myself to work with you, my friends of the Forty-fourth Legislature, fervently,

sincerely and liligently for the welfare of our beloved Lone Star State.

Respectfully submitted,
JAMES V. ALLRED,
Governor of Texas.

Senate Called to Order.

The Chair, at 11:50 o'clock a. m., called the Senate to order.

Resolutions Signed.

The Chair, Lieutenant Governor Walter F. Woodul, gave notice of signing, and did sign, in the presence of the Senate, after their captions had been read, the following resolutions:

H. C. R. No. 34, H. C. R. No. 44,
H. C. R. No. 42, H. C. R. No. 45.

Motion to Recess.

Senator Pace, at 11:51 o'clock a. m., moved that the Senate recess until 10:00 o'clock a. m., Tuesday.

The motion to recess prevailed by the following vote:

Yeas—12.

Collie.	Neal.
Cotten.	Pace.
DeBerry.	Redditt.
Hill.	Small.
Hornsby.	Van Zandt.
Hughston.	Westerfeld.

Nays—9.

Blackert.	Sanderford.
Holbrook.	Shivers.
Hopkins.	Stone.
Moore.	Woodruff.
Regan.	

Absent.

Duggan.	Rawlings.
Poage.	Sulak.

Absent—Excused.

Beck.	Fellbaum.
Burns.	Martin.
Davis.	Oneal.

APPENDIX.

Committee Reports.

Committee Room,
Austin, Texas, March 1, 1935.

Hon. Walter F. Woodul, President of the Senate.

Sir: We, your Committee on Education, to whom was referred

S. B. No. 230, A bill to be entitled "An Act repealing Section 4-f, and amending Section 10 of Chapter 10, Acts Forty-first Legislature, Second Called Session, so as to authorize the State Board of Education, upon the recommendation of the State Superintendent of Public Instruction, to appoint textbook committees; providing for compensation of said committees for services rendered; empowering the State Board of Education upon the recommendation of the State Superintendent, to determine the time and place of meeting of said committees; repealing all laws and parts of laws in conflict herewith; and declaring an emergency."

Have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do not pass, but that committee substitute do pass and be printed in bill form.

DUGGAN, Chairman.

Committee Room,
Austin, Texas, March 1, 1935.

Hon. Walter F. Woodul, President of the Senate.

Sir: We, your Committee on Education, to whom was referred

S. B. No. 325, A bill to be entitled "An Act amending Article 2849 of the Revised Civil Statutes of Texas, 1925, by increasing the number of years, in which old books may be offered for exchange on new books purchased upon a change for adoption, from two to three years; repealing all laws and parts of laws in conflict herewith; and declaring an emergency."

Have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass, and be printed.

DUGGAN, Chairman.

Committee Room,
Austin, Texas, March 1, 1935.

Hon. Walter F. Woodul, President of the Senate.

Sir: We, your Committee on Education, to whom was referred

S. B No. 274, A bill to be entitled "An Act authorizing the State Board of Education to establish Independent School Districts upon any military reservation located within the State of Texas upon such terms and conditions which may be agreed upon by the State Board of Education and the military authorities; etc."

Have had the same under con-

sideration, and I am instructed to report it back to the Senate with the recommendation that it do pass, and be printed.

DUGGAN, Chairman.

Committee Room,
Austin, Texas, March 1, 1935.

Hon. Walter F. Woodul, President of the Senate.

Sir: We, your Committee on Education, to whom was referred

S. B. No. 228, A bill to be entitled "An Act amending Article 2876 of the Revised Civil Statutes of Texas, 1925, so as to provide that interest shall not accrue on bills for the sale of textbooks until said bills have been received and accepted by the State Superintendent of Public Instruction; providing for the payment of interest on such unpaid bills; repealing all laws and parts of laws in conflict herewith; and declaring an emergency."

Have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass, and be printed.

DUGGAN, Chairman.

Minutes of Committee Meeting.

Minutes of Committee on Educational Affairs, Held January 29, 1935, Regular Meeting.

Present: Duggan, DeBerry, Burns, Hornsby, Neal, Poage, Woodruff.

Absent: Cotten, Hopkins, Pace, Regan, Small.

S. B. No. 230 was reported favorably by viva voce vote.

S. B. No. 274 was reported favorably by viva voce vote.

S. B. No. 225 was reported favorably by viva voce vote.

S. B. No. 228 was reported favorably, with committee amendment, by viva voce vote.

JUANITA WILES,
Secretary.

Minutes of Committee on Privileges and Elections, Held March 1, 1935. Called Meeting.

Present: Van Zandt, Poage, DeBerry, Hughston, Neal.

Absent: Beck, Collie, Martin, Shivers.

S. B. No. 238 was favored unanimously, as amended.

S. B. No. 239 was favored unanimously, as amended.

S. B. No. 300 was favored unanimously.

FRANCES BASS, Secretary.

THIRTY-FOURTH DAY. (Continued).

Senate Chamber,
Austin, Texas,
March 5, 1935.

The Senate met at 10 o'clock a. m., pursuant to recess, and was called to order by Lieutenant Governor Walter F. Woodul.

S. J. R. No. 3.

Pending business was the pending amendment by Senator Hill.

Senator Hill asked unanimous consent to withdraw his pending amendment to S. J. R. No. 3.

Senator Moore objected.

Senator Hill moved that the pending amendment to S. J. R. No. 3 be withdrawn.

Senator Moore withdrew his objection.

Senator Moore sent up the following amendment to S. J. R. No. 3:

Amend S. J. R. No. 3, Subsection (a), Section 1 by adding at the end thereof the following:

"or to provide by law for a state liquor monopoly on spirituous, vinous or malt liquor containing more than 3.2 per cent alcohol by weight."

MOORE.

Read and pending.

Senator Hill sent up the following substitute for S. J. R. No. 3, and pending amendment:

Amend by striking out all below the resolving clause and insert in lieu thereof the following:

Section 1. That Article XVI of the Constitution of the State of Texas be amended by striking out Section 20a to 20e, both inclusive, and substituting in lieu thereof the following:

"Article XVI. Section 20.

"(a) It is hereby declared to be the policy of this State that the open saloon shall be forever abolished. The sale of vinous, spirituous, or malt liquors of an alcoholic content of more than three and two-tenths per cent (3.2%) by weight, for private profit, except on purchases made by the State of Texas, is prohibited within this State. The State of Texas shall have exclusive authority to import, distribute, barter and sell, at wholesale and retail, vinous, spirituous, and malt liquors of an alcoholic content of more than three and two-tenths per cent (3.2%) by weight. The Legislature shall enact laws to enforce this amendment, and pass